ASSOCIATED HOSPITAL SERVICES, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

P&N Postlethwaite & Netterville

A Professional Accounting Corporation

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Associated Hospital Services, Inc.
New Orleans, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of Associated Hospital Services, Inc. (the "Company"), which comprise of the balance sheets as of December 31, 2014 and 2013, and the related statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and 2013, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Compensation, Benefits, and Other Payments to the Chief Executive Officer on page 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2015, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

Postlethwaite & Netterville

Metairie, Louisiana
May 28, 2015

ASSOCIATED HOSPITAL SERVICES, INC.
BALANCE SHEETS
DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS		
Cash and equivalents	$ 1,209,761	$ 1,381,189
Accounts receivable	820,884	752,286
Inventory	647,694	463,924
Prepaid expenses and other assets	172,634	160,542
Deferred tax assets	6,683	5,621
Total current assets	2,857,656	2,763,562
Investments	261,646	258,850
Property, plant, and equipment:		
Land	245,910	245,910
Buildings	2,904,463	2,904,463
CBWS, machinery, and equipment	6,527,066	6,443,857
Office equipment and furniture	72,611	70,329
Total property, plant and equipment	9,750,050	9,664,559
Less: accumulated depreciation	(6,804,056)	(6,372,288)
Total fixed assets, net	2,945,994	3,292,271
Deferred tax asset, noncurrent	4,451	-
Total assets	$ 6,069,747	$ 6,314,683
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 177,524	$ 237,725
Total current liabilities	177,524	237,725
Deferred income tax liability	-	68,667
Members' Equity:		
Paid-in capital	5,532,726	5,532,726
Retained earnings	359,497	475,565
Total members' equity	5,892,223	6,008,291
Total liabilities and members' equity	$ 6,069,747	$ 6,314,683

The accompanying notes are an integral part of these financial statements.

ASSOCIATED HOSPITAL SERVICES, INC.
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Revenues	$ 5,531,335	$ 5,200,289
Costs and expenses	5,748,959	5,454,126
Loss from operations	(217,624)	(253,837)
Other income:		
Interest income	278	924
Miscellaneous income	26,502	31,125
Unrealized gain on securities	2,796	3,176
Total other income	29,576	35,225
Loss before income taxes	(188,048)	(218,612)
Income tax benefit	71,980	91,791
Net loss	$ (116,068)	$ (126,821)

The accompanying notes are an integral part of these financial statements.

ASSOCIATED HOSPITAL SERVICES, INC.
STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2014 AND 2013

	Paid-In Capital	Retained Earnings	Total Members' Equity
Balance - December 31, 2012	$ 5,532,726	$ 602,386	$ 6,135,112
Net loss	-	(126,821)	(126,821)
Balance - December 31, 2013	5,532,726	475,565	6,008,291
Net loss	-	(116,068)	(116,068)
Balance - December 31, 2014	$ 5,532,726	$ 359,497	$ 5,892,223

The accompanying notes are an integral part of these financial statements.

ASSOCIATED HOSPITAL SERVICES, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Cash flows from operating activities:		
Net loss	$ (116,068)	$ (126,821)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	431,768	470,186
Deferred income tax benefit	(74,180)	(93,989)
Bad debt expense	19,731	27,021
Unrealized gain on investments	(2,796)	(3,176)
Net changes in operating assets and liabilities:		
Accounts receivable	(88,329)	125,375
Inventory	(183,770)	11,265
Prepaid expenses and other assets	(12,092)	(115,528)
Accounts payable and accrued expenses	(60,201)	(141,579)
Net cash provided by (used in) operating activities	(85,937)	152,754
Cash flows from investing activities		
Purchases of property, plant and equiptment	(85,491)	(16,614)
Net cash used in investing activities	(85,491)	(16,614)
Net increase (decrease) in cash and cash equivalents	(171,428)	136,140
Cash and cash equivalents - beginning	1,381,189	1,245,049
Cash and cash equivalents - ending	$ 1,209,761	$ 1,381,189

The accompanying notes are an integral part of these financial statements.

1. Summary of Significant Accounting Policies

Description of Business

Associated Hospital Services, Inc. (the "Company") is organized as a voluntary cooperative laundry operated for the benefit of its member-owner hospitals which are currently Jefferson Parish Hospital Service District No. 1 (West Jefferson Medical Center) and Jefferson Parish Hospital Service District No. 2 (East Jefferson General Hospital).

Basis of Accounting

The financial statements of the Company are prepared on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less or a cancelable term when purchased to be cash equivalents.

Investments

Investments in debt securities are reported at their fair value based on available market quotes.

Inventory

Inventory consists of rental inventory, which is stated at amortized cost based on estimated usage using industry averages and actual use.

Accounts Receivable and Revenue Recognition

Revenue is recognized as services are provided. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management considered subsequent collection results and wrote-off all year-end balances that were deemed to not be collectible. Accordingly, a valuation allowance was determined to be unnecessary.

ASSOCIATED HOSPITAL SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

1. **Summary of Significant Accounting Policies (continued)**

Property, Plant and Equipment

Property, plant and equipment is stated at cost for financial reporting purposes, the Company provides depreciation for its building and improvements using the straight-line method and uses the double-declining balance and straight-line methods for its equipment, with useful lives ranging from 3 to 3 ½ years. The Company uses various other cost recovery methods for federal income tax purposes.

Income Taxes

The Company uses the liability method of accounting for income taxes in which tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws in effect when the differences are expected to reverse.

Generally accepted accounting principles require an organization to account for uncertainties in income taxes. The interpretation requires recognition and measurement of uncertain income tax positions using a "more-likely-than-not" approach. The Company's tax returns for the years ended December 31, 2013, 2012, and 2011, remain open and subject to examination by taxing authorities. The Company's 2014 tax returns have not been filed as of the report date.

2. **Cash and Cash Equivalents**

The Company maintains commercial non-interest bearing and interest-bearing accounts which are secured up to $250,000 of federal deposit insurance. The risk of maintaining a balance over the FDIC limit is mitigated by maintaining all deposits in high quality financial institutions. These deposits are stated at cost, which approximates market. The Company maintained cash balances in excess of the FDIC Insurance by $948,966 and $1,019,441 as of December 31, 2014 and 2013, respectively.

At December 31, the Company had cash and cash equivalents (book balances) as follows:

	2014	2013
Operating account	$ 52,916	$ 224,622
Savings account	634,446	634,224
Cash equivalents	521,899	521,843
Petty cash	500	500
Total	$ 1,209,761	$ 1,381,189

3. Investment Income

Investment income includes unrealized gains on investment of $2,796 and $3,176 and interest income of $55 and $59 for the years ended December 31, 2014 and 2013, respectively. The remaining interest income of $223 and $865 for the years ending December 31, 2014 and 2013, respectively, includes interest earned on interest bearing cash and cash equivalents. Investment income is included as interest income and unrealized gain on securities in the statements of operations.

4. Property, Plant, and Equipment

Depreciation expense for the years ended December 31, 2014 and 2013 was $431,768 and $470,186, respectively.

5. Income Taxes

The significant components of deferred income taxes at December 31 are as follows:

	2014	2013
Current deferred tax asset:		
Unrealized gain on securities	$ 6,683	$ 5,621
Non-current deferred tax assets:		
State net operating loss	$ 91,414	$ 93,740
Federal net operating loss	506,595	532,482
General business credit	54,267	54,267
Capital loss carryover	3,648	3,648
AMT credit carryforward	23,058	23,058
Non-current deferred tax liability:		
Property, plant, and equipment	(674,531)	(775,862)
Net non-current deferred tax asset (liability)	$ 4,451	$ (68,667)

The net deferred tax asset reflects management's estimate of the amount that will be realized from future profitability and the reversal of taxable temporary differences that can be predicted with reasonable certainty. A valuation allowance is recognized if it is more likely than not that at least some portion of any deferred tax asset will not be realized. As of December 31, 2014 and 2013, the Company has not established a valuation allowance for its deferred tax assets. The Company believes that it is more likely than not that the tax assets will be realized.

5. Income Taxes (continued)

Income tax expense differs from the amounts computed by applying the U.S. federal income tax rate of 34% to income before income taxes as follows:

	2014	2013
Computed expected benefit	$ 63,936	$ 74,328
Increase resulting from state income taxes	8,044	17,463
	$ 71,980	$ 91,791

Net operating loss carry forwards totaling $2,284,741 for State purposes expire between 2020 and 2035. Federal net operating loss carry forwards totaling $1,489,985 expire between 2027 and 2034. Federal general business tax credits in the amount of $54,267 expire between 2025 and 2027, and may be used only against income tax liabilities. The company has an alternative minimum tax credit carryforward of $23,058 as of December 31, 2014.

6. Retirement Plan

In 2002, the Company started a 401(k) plan for its employees The Company matches 100% of the employee's first 3% of salary contributed and ½ % for the 4th% and 5th% of salary contributed. The Company's contributions for the years ended December 31, 2014 and 2013 were $49,998 and $49,913, respectively.

7. Related Party Transactions

The Company operates as a laundry facility and as a centralized linen purchaser for members and other third parties. Revenues derived from member transactions for the years ended December 31, 2014 and 2013 were $2,402,668 and $2,478,371, respectively.

Included in accounts receivable are receivables and finance charges from members of $392,907 and $409,315 at December 31, 2014 and 2013, respectively. Receivables are not collateralized.

8. Fair Value Measurements

Fair value measurement standards established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted priced in active markets for identical assets or liabilities (Level 1 Measurements) and the lowest priority to unobservable inputs (Level 3 Measurements). The three levels of the fair value hierarchy under the standard are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

8. Fair Value Measurements (continued)

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value:

Fixed income: Valued at the net asset value of shares held at year end (Level 1 inputs).

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Within the fair value hierarchy, the Company's only investment asset is a Level 1 investment recorded at fair value of $261,646 and $258,850 as of December 31, 2014 and 2013, respectively.

8. Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. Substantially all of the Company's receivables are due from hospitals, doctors and other health care institutions. The Company manages the receivables by regularly reviewing its accounts and contracts and by providing appropriate allowances for uncollectible amounts when necessary. Credit losses have not been significant.

In addition to revenues derived from members (see Note 7), approximately $1,187,168 and $1,168,588 of revenues were derived from one third-party customer during the years ended December 31, 2014 and 2013.

9. Leases

Operating lease rental expense relating to the rental of delivery trucks was $109,086 and $100,370 for the years ended December 31, 2014 and 2013, respectively.

Minimum lease payments are as follows:

2015	$	78,990
2016		70,750
2017		53,414
2018		41,147
2019		20,326
Thereafter		32,813
Total	$	297,440

10. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, May 28, 2015, and determined that the following subsequent event requires disclosure.

Subsequent to December 31, 2014, the Company was notified that West Jefferson Medical Center (WJMC) expects to partner with another entity to manage the operations of WJMC. At the effective date of the partnership, WJMC will no longer be eligible for membership of the Company and will forfeit any monetary interest in the Company. The expected effective date of the partnership is June 30, 2015. East Jefferson General Hospital will become the sole member of the Company.

ASSOCIATED HOSPITAL SERVICES, INC.
SCHEDULE OF COMPENSATION, BENEFITS, AND OTHER PAYMENTS TO THE PRESIDENT/CHIEF EXECUTIVE OFFICER
YEAR ENDED DECEMBER 31, 2014

Purpose	Amount
Salary	$ 119,604
Benefits-insurance	18,232
Benefits-retirement	4,784
Benefits (vision, dental, LTD, LTC, life)	2,822
Car allowance	19,283
Reimbursements	-
Travel	2,720
Registration fees	-
Conference travel	-
Other (meals, entertainment, parking)	-
Cell phone	-

See accompanying independent auditors' report.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Associated Hospital Services, Inc

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Associated Hospital Services, Inc. (the "Company"), which comprise the balance sheet as of December 31, 2014, and the related statements of operations, members' equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 28, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite & Netterville

Metairie, Louisiana
May 28, 2015